Matching on T
Examining the Business Case
Session Participants

• Alan Hutton – Vice Chairman and Executive Director, CCMA
• Maxime Paré – Senior Legal Counsel, Market Regulation, OSC
• Jenny Tsouvalis – Vice President, Investment Operations & Applications, OMERS
• Louis Lesnika – Assistant Vice President, Trade Settlements, CIBC Mellon
• Lorne Rintoul – Vice President Securities Operations, Scotia Capital Inc.
Matching on T

Alan Hutton
Vice Chairman and Executive Director, CCMA
Introduction

• 1995  G30 drives settlement compression from T+5 to T+3
• 1999  CSA monitors Y2K preparation
• 2000  US announces intentions to compress settlement to T+1
  CCMA founded to coordinate Canadian response
• 2001  9/11 highlights BCP & trade confirmation issues
• 2003  Global commitment to T+1 settlement wanes
  G30 global report calls for matching on T+0
  Industry & regulatory agreement to pursue BCP & STP
• 2004  T+0 trade matching chosen as STP proxy
  CSA publish STP paper and NI 24-101 for comment
• 2006  CCMA & industry work with CSA to finalize NI-24-101
Introduction

- Jan 07  Final version of NI 24-101 published
- Apr 07  National Instrument 24-101 – enacted
- July 07  CDS reports by target times
- Oct 07  Counterparty attestations required
  Performance measurement begins – 80% T+1 noon
- Nov 07  CCMA requests interim target relief
- Dec 07  First reporting period ends – filing within 45 days
- Jan 08  Matching targets increase to 90% T+1 noon
- Apr 08  CSA announces revised schedule for targets
  90% T+1 noon matching target extended to Q2 - 2010
- July 10  Matching targets increase to 70% T+0 midnight
- Jan 12  Matching targets increase in phases to 95%
Current Status

• Target is 90% matched by noon on T+1

• 1st Quarter 2008 performance (lower of value or volume)
  • 74% matched by noon on T+1 (85% entered)
  • 81% matched by midnight on T+1 (89% entered)
  • 35% matched by midnight on T+0 (68% entered)
A Regulatory Perspective

Maxime Paré, Senior Legal Counsel, Market Regulation, OSC

NB: My comments may not necessarily reflect the views of the OSC/CSA
NI 24-101 Trade Matching Rule

• Trade matching parties must have policies and procedures designed to achieve matching of institutional trades as soon as practical, but no later than:
  • noon on T+1 until June 2010
  • midnight on T+0 after that

• Key concepts:
  • matching
  • DAP/RAP trade
  • institutional investor
  • trade-matching party
Key Features of NI 24-101

- Scope of NI 24-101’s matching rule – applies generally to equity and debt trades that settle on T+3
- Documentation requirement – trade-matching parties must confirm policies and procedures in place via “trade-matching agreement” or “trade-matching statement”
- Flexibility for trades from non-western-hemisphere institutional investors
Industry Consultation

• Participation from sell-side, buy-side, custodians, CCMA, IIAC, IDA, CDS
• Industry consultations continuing
• CSA Staff Notice 24-305 – FAQs
• Broad range of questions on matching requirements
NI 24-101 Exception Reporting

- Compliance monitored through quarterly:
  - exception reporting of dealers and advisers
  - reporting of CDS and MSUs
- Registrants complete exception report for quarter if targets not met (described later)
- Registrants must report causes of failure to match on time and actions taken to correct problems
- CSA Staff Notice 24-306 – online exception reporting system
Deferring T+0 Matching

- CSA Notice 24-307 – CSA decision to extend transitional phase-in period by additional 24 months
- CSA blanket orders and OSC local rule 24-502
- New exception reporting requirements:

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Reporting Deadline</th>
<th>Exception Threshold</th>
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<tbody>
<tr>
<td>up to Q2 – 2010</td>
<td>Noon T+1</td>
<td>if less than 90%</td>
</tr>
<tr>
<td>Q3 &amp; Q4 – 2010</td>
<td>Midnight T+0</td>
<td>if less than 70%</td>
</tr>
<tr>
<td>Q1 &amp; Q2 – 2011</td>
<td>Midnight T+0</td>
<td>if less than 80%</td>
</tr>
<tr>
<td>Q3 &amp; Q4 – 2011</td>
<td>Midnight T+0</td>
<td>if less than 90%</td>
</tr>
<tr>
<td>2012 &amp; thereafter</td>
<td>Midnight T+0</td>
<td>if less than 95%</td>
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</table>
Has NI 24-101 Improved the Industry’s Trade Matching Performance?

• Rule is having positive effect
• Based on combined equity / debt trading volume:
  • April 2004
    • 3% of institutional trades matched by end of T+0
    • 47% of institutional trades matched by end of T+1
  • March 2008
    • 35% of institutional trades matched by end of T+0
    • 78% of institutional trades matched by noon T+1
    • 86% of institutional trades matched by end of T+1
NI 24-101 Trade Settlement Rule

• Dealers must have policies and procedures designed to facilitate settlement of trades by standard settlement date

• Rule strengthens general settlement cycle rules of marketplaces / SROs – generally T+3

• Whether appropriate policies and procedures exist may be factor in establishing UMIR compliance, e.g. delivery requirements for short sales
A Buy-Side Perspective

Jenny Tsouvalis, VP Investment Operations & Applications, OMERS Administration Corporation
Benefits for Buy Side Firms in Shorter Matching

• Achieve operational efficiency
• Lower operational risk & costs
• Eliminate manual intervention and reduce errors
• Greater reliability, efficiency and accuracy
• Handle greater transaction volumes
Benefits for Buy Side Firms in Shorter Matching

• Allow for more effective cash management
• Ensures book of record accuracy on a timely basis
• Access to timely information for effective decision making
• Achieving up to date, timely and accurate reporting (daily & real time)
• “Nothing good occurs between trade & settlement date” as depicted by recent market volatility
Benefits for Buy Side Firms in Shorter Matching

Operational Efficiency includes:

- No duplicative or manual processes with potential for errors
- Less opportunity for settlement failures
- Less opportunity for failures in securities lending
- Focus more on analysis vs manual processing
Benefits for Buy Side Firms in Shorter Matching

Access to timely information includes:

• Up to date investment reporting for Portfolio Managers
• Greater ability to access products in a timely manner
• Ability to achieve best execution
• Greater opportunity for timely decision making
Challenges for Buy Side Firms in Shorter Matching

- Automated systems required
- Automatic transmissions required to Custodians
- Integrated systems between front & back office eliminating manual rekeying
- Structured data required for quality & accuracy
- Structured & defined processes to achieve effective timelines
Approaches for Buy Side Firms in Achieving Shorter Matching

Focus on:

• One point of entry for trading, eliminating replication
• Link front end trading processes to middle & back end operational functions
• Determine the various approaches to enlist Order Management systems (OMS) & Virtual Matching Utilities (VMU’s) in the workflow structure
• Robust data security master files with key attributes
• Ongoing monitoring & assessment of bottlenecks & issues
A Custodian Perspective

Louis Lesnina, Assistant Vice President Trade Settlements,
CIBC Mellon Global Securities Services Company
Settlement Standards Around the World

Comparison of equity settlements in 81 countries

- 5 countries have equity settlement standards set to T+1
- 15 countries have equity settlement standards set to T+2
- 61 countries have equity settlement standards set to T+3 or greater
Preparing to Match on Trade Date (T+0)

Changes Custodians will need to make

• Continue working with our clients to improve STP rates
• Communicate with our clients the new timelines for receiving trade instructions on Trade date (T)
• After hours support by Sell Side, Buy Side and Custodians
Challenges to Matching on Trade Date (T+0)

Challenges include

• Improving STP rates for all our clients
• Work with clients to “Axe the Fax”
• Timing of allocation (end of day bulge)
• System synchronization between parties
• Prolonged trading hours
Benefits from Matching on Trade Date (T+0)

Benefits include:

- Fewer “Exceptions” for staff to review on settlement date
- Fewer fails
- Improved Client Service
- Readiness for T+1 settlement
A Sell-Side Perspective

Lorne Rintoul, Vice President Securities Operations, Scotia Capital Inc.
Current Compliance with 24-101

- Definite improvement has been made over the past year

- Industry Results:

<table>
<thead>
<tr>
<th></th>
<th>March ’07</th>
<th>March ’08</th>
<th>Improvement</th>
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<tbody>
<tr>
<td>Submitted T+1</td>
<td>76% (Midnight)</td>
<td>87% (Noon)</td>
<td>+14%</td>
</tr>
<tr>
<td>Matched T+1</td>
<td>60% (Midnight)</td>
<td>78% (Noon)</td>
<td>+30%</td>
</tr>
<tr>
<td>Matched T+0</td>
<td>18% (Midnight)</td>
<td>35% (Midnight)</td>
<td>+94%</td>
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</tbody>
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- Not compliant with current threshold of 90% matched by T+1 Noon (-3% submission / -12% match)

- A major gap between matching by T+1 Noon and T+0 EOD (-43%)
Benefits Attained

• Increased STP rates / reduced manual processing = increased efficiency
  • But difficult to quantify as corresponding expense savings not yet seen

• More timely matching = increased comfort transactions will settle
  • But no guarantee as trades not locked in

• Probably fewer fails
  • But not material as fails not a problem

• Positioned for move to T+1 Settlement Cycle
  • But no longer a priority to US

• Improved service to buy-side clients
  • But not yet determined
Costs Incurred

One-time
• Development
  • Service providers - real-time vs batch
  • Order Management Systems (other broader benefits)
  • Client / CSA reporting

Ongoing
• Infrastructure / HR
  • Exception monitoring / processing
  • Client / CSA reporting
  • Increased post-trade electronic communication (SS&C, OMGEO)
Further Benefits of Moving to Matching on T

- Fully positioned for T+1 Settlement Cycle
  - But still not seen as a priority to US market.

- Lower risk
  - But difficult to quantify any benefit without trades being locked in or a move to a shortened settlement cycle

- Challenge and increased cost of being compliant raises the priority of moving to Custodian Block Settlement Processing to reduce costs
  - This may drive additional benefits
At What Further Costs

• Further one-time development costs
  • Order Mgt. Systems
  • Work already completed may have positioned us for T+0 matching

• Further increase in ongoing costs
  • Infrastructure / HR
    • Increased administration to address exception processing and reporting and non-compliant clients
  • Post-trade communication
    • Use of electronic post-trade communications processes would continue to expand

• Client Frustration
Summary

• Applaud the recent CSA decision to extend the target of matching 90% by Noon T+1 until the end of June 2010

• It will provide additional time to assess industry wide benefits and costs associated with a move to Matching on Trade Date

• In the mean time focus on
  • Attaining 90% matched by T+1 Noon
  • Move to custodian settlement block processing
  • Standardized, consistent reporting
Questions?